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Chile in Times of Pandemic

Daniela Ramírez

Abstract

This chapter provides an overview of the economic impact in Chile caused by Covid –19, the evolution of the Chilean economy in a compact and direct view. The restrictions imposed on consumption and production, as well as the decline of private investment are the main obstacles that will keep the country from growing, exacerbated by the consequences on labor activity; on the other hand, the increase in public spending helps to counteract these effects, but only to a certain extent. We will consider a brief look at the political situation in the country, since the Chilean economy was in a vulnerable position at the time of receiving the pandemic with an economic contraction of 4.1% in the last quarter of 2019, as the result of the social crisis triggered in October of the mentioned year. The following aspects will be developed which include quantitative information about; Chilean economic situation, making reference and taking comparative parameters to the foreign sector, public sector, fiscal policy and monetary policy. Economic prospects and political situation.

Keywords: economic impact, social crisis, pandemic, uncertainty, politic

1. Introduction

Chile is one of the Latin American economies that in the last four decades has had rapid and sustained growth, within a stable economic framework, which has allowed it to reduce poverty even when the international economic context has not been the most favorable. The crisis in 1995, the Asian crisis of 1998 and the world crisis of 2008 hit the working class of this country to different degrees. Today, while the world is debating whether we are entering a new depression, in Chile the collapse of the economy appears to be one of the biggest in recent times, with the price of copper at its worst levels, the stock market falling at the same time. Long 2020 and the rise in the value of the dollar.

This research is motivated by the interest in achieving a better knowledge of the economic and social situation in Chile in times of pandemic. In this work, based on a quantitative research, we present a series of statistical indicators, obtained from Chilean and international organizations that allow us to contextualize the current situation based on said data, and that lead us to analyze and comment on the initial impacts of Covid –19.

2. International context

By the end of the first half of 2020, the world economic outlook is one of great uncertainty, the unprecedented effects of the pandemic have caused financial conditions to ease and the economic slowdown that has dragged on since 2018,

GDP (Percent change from previous year)		
	(Percent change)	
	2019e	2020f
World	2,4	-5,2
Advanced economies	1,6	-7,0
United States	2,3	-6,1
Euro Area	1,2	-9,1
Japan	0,7	-6,1
Emerging market and developing economies	3,5	-2,5
China	6,1	1,0
Latin America and the Caribbean	0,8	-7,2
Brazil	1,1	-8,0

Figure 1.
Real world GDP. Official data obtained from the World Bank. Source: World Bank. Note: e = estimate; f = forecast. 1. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. 2. Annual GDP is on fiscal year basis, as per reporting practice in the country. 3. Quarterly data are preliminary.

particularly for emerging countries, has created the perfect scenario. For a projected global economic contraction in GDP of 5.2%, this situation puts on the table the urgent need to take support measures to cushion the effects of Covid-19 and protect economies from events of similar characteristics in the future.

According to World Bank estimates [1], contractions of more than 7%, mainly in the Eurozone, 5% in the United States, Japan and Brazil and 0.4% in China, directly affect the exports of a country with a powerful development of an open economy (Figure 1).

3. Economic situation in Chile

At the time of the pandemic, Chile was in a position of economic and social vulnerability, as a result of the social crisis triggered in October 2019, this situation causes a strong health and economic impact due to its negative effect on supply and demand, reflected in numbers [2] for 2018, the expansion of GDP in Chile reached 3.9%, while in 2019 it only grew by 1.1%.

The pandemic has hit the Chilean economy by several sides, the stagnation of economic growth as a result of the fall in private investment, restrictions on consumption and production and the consequences of unemployment will further weaken the supply and demand situation. That can be reversed to some extent with increased public spending.

On the other hand, the Chilean economy is also being hit hard by the international context, especially by the fall in the price of copper and the increase in the value of the Dollar [3] (which reaches almost \$ 860 pesos) and the Euro (which reaches \$ 925). Although the international collapse in the price of oil has been welcome news, which somewhat offset the trade balance, there is concern that it could deepen the international economic crisis.

The economic activity index as of March 2020 reflected a slight increase in relation to the last quarter of 2019, which was interrupted by the magnitude of Covid-19, the official data of the Central Bank Chile [4] provides an advance of the impact with a fall in activity -13.2% between April and June (Figure 2).

In the field of foreign trade and according to the statistical information of the National Customs Service, Chile’s commercial exchange decreased 14.2% in the

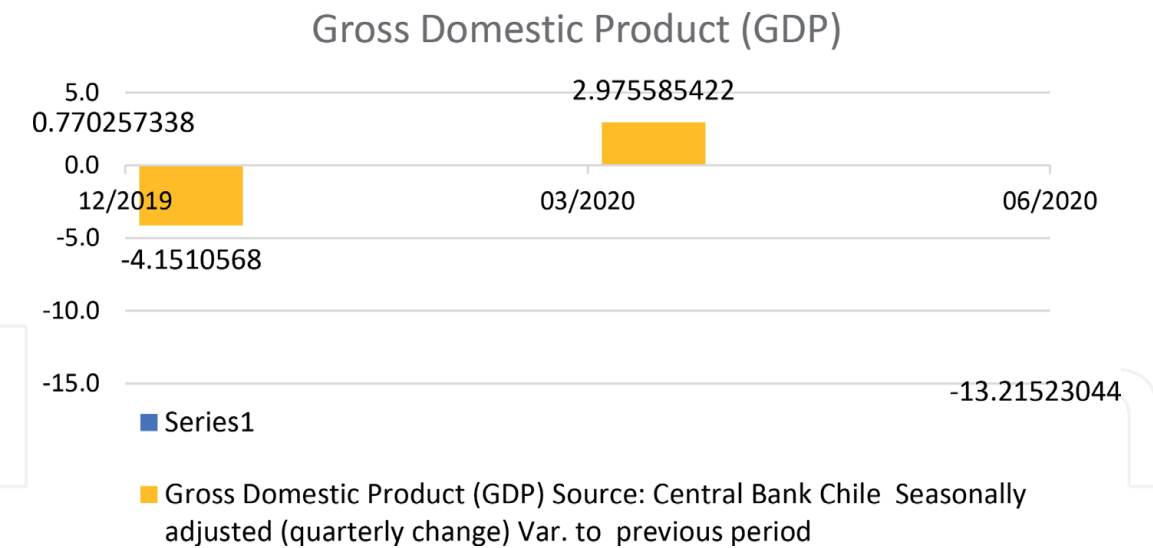


Figure 2.
Comparative GDP variation previous quarter. Based on data [4].

first semester 2020, exports reached US \$ 34,070.9 million, equivalent to a negative variation of 9.9%, while imports reached US \$ 26,388, 3 million, registering a decrease of 18.5% [5].

Despite this contraction in exports during the first semester, shipments to China, Chile’s main trading partner, registered an increase of 7.5% with US \$ 11,896.7 million and a share of 34.9%, followed by The United States with 14.3% and Japan with 9.1% participation, which translates into total sales of 58.3% [5].

Exports related to mining represented 51.7% of total shipments reaching US \$ 17,616 million, which caused a decrease of 3.1%. Copper within mining products represents 41.1% of the total, reaching a variation of –2.5%, equivalent to US \$ 185 million. However, iron and its concentrates had an increase of 79.3% corresponding to US \$ 252 million [5].

Non-mining exported products totaled US \$ 16,455 million, presenting a decrease of 16.1%.

On the other hand, imports decreased by 18.5%, equivalent to US \$ 26,388 million. China, even as the main seller with a 25.5% share of total international purchases, decreased by 8.1%; The United States with 19.8% and Brazil with 7.5%. Fuel imports accounted for 14.4% of total revenues, highlighting the drop in the purchase of crude oil with –46.1% [5].

In parallel, imports of non-fuel products totaled US \$ 22,585, which represents a decrease of 15.6%. In relation to these variations, there is an increase in the purchases of generators and corn for consumption [5].

4. Public policies

Promoted by the International Monetary Fund, all over the world countries are applying extraordinary measures to mitigate the effects of Covid-19 on the well-being of the population and the economy; in Chile, the Ministry of Finance announced the Emergency Economic Plan as economic support for families, workers and small businesses (SME); This plan involves fiscal resources for US \$ 11,750 million equivalent to 4.7% of annual GDP, in addition to US \$ 5,000 million allocated by the Treasury to protect the economy and income, totaling 17,000 million equivalent to 6.9% of GDP [6].

The arguments presented by Chile in this fiscal package include an increase in health spending, additional transfers to all municipalities in the country, a special

unemployment insurance fund, as well as the deferral of tax payments for companies with smaller sales. at \$ 12 million.

In addition, the government agreed to an emergency Family Income as a complement to family income, extendable so that each household has at least 110 euros per person from a minimum floor of 30 dollars.

Also, a subsidy was established for independent workers who have suffered a sharp decrease in their income, considering an average income of less than 540 euros.

A capitalization of the Guarantee Fund for small Entrepreneurs of 3 billion dollars was ordered with the objective of leveraging guaranteed loans.

For reference, if we compare these data with other countries in the region, the measures taken by the Chilean government are some of the highest, being surpassed only by Peru, Argentina for example in its government aid program reaches 3, 5% of GDP; This position is also positive if we compare it with countries like Germany, which is equivalent to 156 billion euros, equivalent to 4.9% of GDP, or that of France with 110 billion, close to 5% GDP [6].

Considering the macroeconomic impairment, the decrease in income is justified, and it is projected that the Central Government's income will contract by a real 16.1% compared to 2019.

In April 2020, the Budget Office announced that as a result of the economic measures adopted by the pandemic, the effective deficit will reach 9.6% of GDP and a structural deficit of 3.5%. Thus, for the end of this year, an increase in fiscal spending of 11.4% is expected compared to 2019 and it is projected that the gross debt of the government will be located at 32.7% of GDP and 35.7% at the end of 2021, reaching 40% in 2024 [6].

The foregoing dangerously brings us closer to a debt threshold that significantly increases the payment of interest and with this the possibility of entering a debt crisis, estimates indicate an interest payment of the order of US \$ 4.5 billion in 2024.

5. Employment

The Chilean labor market prior to facing the crisis due to COVID-19 was in a fragile position due to the internal social crisis that unleashed as of October 18, 2019, clearly there is a difference in facing a crisis with a robust labor market and dynamic that with a weakened market, Chile is unfortunately in the latter situation. According to what was reported by INE-National Institute of Statistics of this country, in the quarter prior to this pandemic (December 2019–February 2020), total formal jobs had fallen by 37,423 annually and informal employment had increased by 193,519. For its part, the creation of formal private salaried employment in the December 2019–February 2020 quarter was only 67,057, which contrasts with the 129,830 in the August October 2019 quarter; This, despite fiscal efforts to avoid company bankruptcies and worker layoffs, did not prevent many from closing permanently. The severity of the health crisis then accelerated the collapse of employment [7].

The unemployment rate reached 7.8% in the moving quarter December 2019–February 2020, this percentage has been sustained by the dramatic increase in informal employment, which has prevented the unemployment percentage from rising sharply.

Although during recessions the unemployment rate increases, it is cushioned by the changes that occur in the composition of employment, however, the severity of the current health crisis compared to other crises is that it directly prevents or

hinders the execution of jobs that allow people to avoid a situation of total unemployment, which entails fewer options for an increase in informal employment and consequently there are more abrupt rises in the unemployment rate.

According to the figures for the April–June 2020 quarter (Nacional Institute Statistic) show that the employment rate fell by 20% compared to the same period of the previous year, which implies 1.78 million jobs lost in 12 months; Employed persons in April–June reached 7.14 million people in contrast to 9.12 million in the mobile quarter November–January 2019 [7].

We must bear in mind that the contract suspension measure of the recent “employment protection” law maintains an employment relationship with more than 800 thousand people who maintain a link with their employer, receiving in most cases a lower remuneration and/or return to work after four weeks.

The seriousness of the health crisis can be expressed more clearly in that the total number of effective hours worked fell by 32% in twelve months. The average hours worked reached 32.4 hours per week, far from the legal 45 hours of salaried work [7].

6. Monetary policies

Faced with the signs of an economic slowdown since October 2019 and the repercussions of the last quarter of the year, the Central Bank’s council had lowered the interest rate by 1%, which had been sustained at 3% since January 2019 and that after the social outbreak it fell again, reaching 1.75%. Faced with the pandemic, the Central Bank reduces the refinancing interest rate by 1.25%, leaving it at its technical minimum of 0.5% [8].

The annual record of inflation remained below the Central Bank’s target range of 3% from September 2018 to December 2019 [9]; Between January and March, the effect of the accelerated devaluation of the peso became tangible, which had a rapid impact on import prices. In the immediate future, the decrease in household consumption will put downward pressure on consumer prices, which is already evident in May with a 0.1% drop [9].

For its part, the dollar, at the beginning of the social crisis in October 2019, was worth 713 pesos, reaching a maximum of 838 pesos in November, and then falling again thanks to the exchange intervention of the Central Bank [10]. Said intervention with an amount close to US \$ 20,000 million, began on December 2, 2019 and has been maintained with some oscillations according to the variation of the exchange market; In conclusion, the dollar scenario in Chile is strongly marked by global uncertainty, the evolution of the pandemic and its impact on various economies.

7. Economic outlook

The Central Bank of Chile in June lowered its projections for March and modeled a fall in the economy between –5.5% and –7.5% while it projects a rapid recovery with growth of 4.75% to 6, 25% for the year 2021 and 3 to 4 percent for the year 2022. For the government, the fall in domestic demand would reach 9.8% in 2020, much greater than the contraction of 3.3% forecast in April [11]; and it is anticipated that the dollar would end the year with an approximate value of 792 pesos, GDP is expected to expand on average 3.5% between 2022 and 2024 above the estimated 3.2% [12].

The IMF, for its part, adjusted the projection for Chile in June 2020, estimating a 7.5% drop in GDP, this estimate is similar to the worst scenario contemplated in Chile by the Ministry of Finance.

It is important to mention that in May the International Monetary Fund, approved a flexible credit line for the Central Bank of Chile, of almost 20 billion dollars, whose objective is to guarantee the liquidity of the currencies in the case of greater complexity in the crisis. Thus, this organization projects a GDP growth of 3.7% for Latin America, positioning Chile with 5%.

In general, expectations continue to anticipate that the recovery will be gradual in the remainder of the year, although this is directly related to the health indicators and their improvement, there is optimism as the statistics show figures below 2,000 cases of Covid-19 per day, this trend indicates that it is very likely that the government will continue to soften the measures taken.

Finally, it is important to note that the price of copper continues to rise, exceeding 3 dollars per pound, however, although manufacturing in China could continue to drive the price of copper, there is also a great downside risk considering the possible slowdown in the pace of the global recovery due to the fact that the stimulus measures begin to expire in several of the economies that affect international consumption.

8. Political situation

The Chilean political context in which the health crisis has taken place is of tremendous complexity, in October 2019 the government of Sebastián Piñera had to face a wave of massive protests that lasted for months; Although the trigger for these was the increase in the price of the subway ticket, the social demands of the protesters had a heterogeneous nature and covered issues as varied as access to health, the reduction of gender disparities, the insufficient amount income and the end of the private pension system, among others. With a mobilized society and a good number of opposition political actors, two main arguments began to be structured. First, socioeconomic inequities are not sustainable and must be reduced. Second, the rigid institutional rules of the game, fundamentally enshrined in the 1980 Chilean Political Constitution, designed during the dictatorship, protect the status quo and hinder the adoption of changes that promote greater equity.

For the month of March 2020, a reactivation of the social unrest that began in October 2019 was expected, after the first case by Covid-19 announced on March 3, the political scene turned completely to contain the crisis and its effects economical. Towards the end of April and until the first fortnight of June, the expansion of Covid –19 was exponential, despite general measures, such as the closure of the border, mandatory quarantines for infected people, prohibition of public events, suspension of classes, sanitary cords and the use of mandatory masks, one of the government's mistakes was deciding general voluntary quarantine and selective and brief confinements that, far from helping to stop contagions, increased them since the Metropolitan region is a city of continuous displacement and dormitory communes; this led to the late introduction of strict quarantines.

Finally, it is feasible to think that there are two types of outcomes after this crisis, in the first place it is likely that when the waters calm down and the health crisis is no longer the first problem, the opposition forces will focus on the weaknesses of the economy market, the fragmentation and inequalities of the health system and the lack of social policies and secondly, the confinement has kept the country without social mobilizations, which may favor the ruling party to maintain a discourse of national unity that tarnishes the social reality that lives The country

is quick to venture to envision which scenario will prevail, since if the government is not able to protect the most vulnerable from the economic effects of the crisis, social unrest could become more acute.

9. Conclusions


The figures show the impacts of the pandemic, in short, what we have in Chile is not just a health problem that can be addressed scientifically or technically. Chilean society is literally experiencing a storm, in which three situations of economic crisis (China-US trade war, Social Outbreak and pandemic) are linked to each other; If to this we add the fact that the political system is in crisis, without major leaderships that allow organizing society as a whole or projects that can channel the demands and uncertainties that arise with the pandemic and provide effective responses to problems that arise. Have become more and more urgent, clearly, we are facing a complex situation in which each of the elements (health, economic and political) has its own dynamics that depends on different types of national and international actors in the face of different uncertain factors.

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